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1 EXECUTIVE COMMITTEE MEETING

2 WEDNESDAY, SEPTEMBER 20, 1989

3 U.S. Senate

4 Committee on Finance

5 Washington, D.C.

6 The meeting was convened, pursuant to recess, at 3:07 p.m.,
7 in Room SD-215, Dirksen Senate Office Building, Hon. Lloyd
8 Bentsen (Chairman) presiding.

9 Also present: Senators Matsunaga, Moynihan, Baucus, Boren,
10 Bradley, Mitchell, Pryor, Riegel, Rockefeller, Daschle,
11 Packwood, Dole, Roth, Danforth, Chafee, Heinz, Durenberger,
12 Armstrong and Symms.

13 Also present: Vanda McMurtry, Staff Director and Chief
14 Counsel; Ed Mihalski, Chief of Staff, Minority.

15 Also present: Dr. Louis Sullivan, Secretary, Department of
16 Health and Human Services.

17 Also present: Bill Diefenderfer, Deputy Director, OMB; Jeff
18 Olson, Assistant Secretary for Legislation, Department of Health
19 and Human Services; Stuart Brown, Deputy Chief of Staff, Joint
20 Committee on Taxation; and Dr. Marina Weiss, Health Counsel,
21 Majority.

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1 The Chairman. This hearing will come to order. Would you
2 please cease conversation so we can hear the witness who is
3 testify and in turn the Senators who will be commenting.
4 Let me state, Mr. Secretary, we are delighted to have you
5 here. Certainly this is one of the most major issues concerning
6 your Department. We appreciate the medical background you bring
7 to this issue and your concern for elder Americans and that of
8 the Administration. We want very much to have your counsel and
9 to understand the position of the Administration on some of the
10 very difficult issues that we will be facing here.
11 There is so much we would like to do in trying to address
12 the concerns of older citizens. We also understand the
13 constraints of the budget in these times as we try to comply
14 with the objectives of Gramm-Rudman.
15 I would like to now turn to you and ask you to make such
16 comments as you will concerning the position of the
17 Administration on some of these difficult choices we are facing.
18 Mr. Secretary.
19 Dr. Sullivan. Thank you very much, Mr. Chairman. I am
20 pleased to be here to meet with you and your colleagues on the
21 Senate Finance Committee as you work to address this very
22 difficult issue of the catastrophic health insurance
23 legislation.
24 Let me begin by making one statement. I was indeed
25 surprised to learn that I was expected to be here yesterday. We

1 have been represented through my staff, Mr. Olson, at each of
2 these hearings and we have been in contact by telephone with
3 many of the individuals. It was my understanding that it was
4 understood that because of other conflicts that I would not be
5 here but would be represented.
6 The Chairman. Well, let me say, Mr. Secretary, that was not
7 my understanding. So we obviously had a miscommunication on it.
8 When we reach the final crucial decisions, which I hope we are
9 now doing in these open meetings, it was critical and I think
10 imperative that we add the man that heads up the Department,
11 that has the primary responsibility here. We are delighted to
12 have you.
13 Dr. Sullivan. Well, I am certainly pleased to be here with
14 you, Mr. Chairman. But I certainly wanted to emphasize we have
15 been following this very closely with the members of my staff
16 who have been here representing us all along.
17 Now we realize that you have some very important decisions
18 to make and I am here to speak on behalf of the administration
19 on this issue. That has been our position all along and to
20 reaffirm that I met this morning with my colleagues at the White
21 House and OMB so that there would be no confusion that we speak
22 for the Administration on this issue.
23 We know that there are difficult questions that have been
24 raised. Let me place our position before you concerning the
25 legislation. We believe that this legislation meets an

1 important need for our elderly citizens. It was enacted last
2 year under the leadership of you, Mr. Chairman, and the members
3 of this Committee and the Congress by an overwhelming vote.
4 This is because it was recognized, I believe, that there was a
5 need for this legislation.
6 Our position has been that this legislation is new. We
7 should not tamper with it until we have had greater experience
8 with it. But I recognize that you have been under tremendous
9 pressure from individuals from around the country and,
10 therefore, we are here to cooperate with you as you look at
11 changes that you may want to initiate in this. Our position has
12 been for staying the course with the legislation, not making
13 changes; but, indeed, we have been pleased to work with you and
14 continue to work with you to respond to specific questions that
15 you might wish to consider concerning changes in the
16 legislation.
17 We would say that any changes that you choose to make we
18 would want them to represent good health policy. Secondly, the
19 changes should be budget neutral. And thirdly, changes should
20 be politically stable. In other words, changes which, indeed,
21 there is agreement that will hold with the members of the
22 Committee. Within those constraints, we are here to work with
23 you and to respond to the questions that you have.
24 One final comment I would also make, Mr. Chairman, and that
25 is, in the discussions that have gone on in recent weeks, I wish

1 to emphasize that this legislation we have continued to believe
2 meets a very real need in protecting our elderly citizens from
3 the possibility of a financial ruin at a vulnerable time in
4 their lives. We continue to stress that that is a need that we
5 would hope you keep before you as you consider any changes that
6 might come before this Committee. So that we certainly want to
7 emphasize those points to you.
8 That ends my statement, Mr. Chairman. I would be pleased to
9 respond to any questions or comments.
10 The Chairman. Mr. Secretary, you have had presented to you
11 a proposed bipartisan compromise, one that I would hasten to say
12 does not have a unanimous support on this Committee, but does
13 have a number of the members who feel that the tough choices are
14 represented here, but where we would provide for the ability for
15 people to opt out along with Part B -- have the option as to
16 whether or not they carry on on the supplemental premium and
17 have the benefits of catastrophic, and that we left in the
18 number of things that I have had listed here -- with your
19 keeping such close touch with what was happening -- that you
20 have been advised of.
21 One of the principal points in that package, being as much
22 as we all would like prescription drugs, that in getting the cap
23 down to $585 from $800, getting the percentage of the taxes paid
24 to be the number for the supplemental paid meant that we had to
25 give up some of those benefits and this one proposes that the

1 prescription drug benefit be dropped to accomplish these other
2 objectives and the Mitchell drugs be left in it. And you have
3 the detail of it here, which I am sure you have been provided
4 with your staying in such close touch.
5 I want to know, is it the position of the President in
6 proposing this package that he would support it?
7 Dr. Sullivan. The repeal of the drug benefit, is that your
8 question?
9 The Chairman. With the package, yes, as it is put together.
10 Dr. Sullivan. Should the Committee choose to make that
11 decision, Mr. Chairman, we would not resist that.
12 The Chairman. I don't want that. You know, that is -- Down
13 in my country we say, "That old dog won't hunt." I want to
14 know, is the President supportive of that kind of a decision if
15 it is made by this Committee -- that package.
16 Senator Packwood. Can I ask a question before he answers?
17 The Chairman. Yes.
18 Senator Packwood. If you answer yes to this question, which
19 fits your three criteria of good health policy, revenue neutral
20 and politically stable, it doesn't mean that you are precluded
21 from answering yes to other alternatives that meet those three
22 criteria, does it?
23 Dr. Sullivan. I would assume not.
24 The Chairman. No, I accept that qualification.
25 But I want to know, on this one, would the President support

1 it.

2 Dr. Sullivan. Mr. Chairman, our position is as follows:
3 First of all, our position is that we would prefer not to have
4 the bill altered at this time. We certainly had hoped that it
5 would not be part of the reconciliation package. But given the
6 realities of the questions that have come before this Committee,
7 should indeed the Committee decide to make those changes and to
8 save the bill from total repeal, we would indeed support that
9 decision.

10 Senator Heinz. Mr. Chairman, may I ask a clarifying
11 question?

12 The Chairman. No. We will give each of you time.

13 Now, Mr. Diefenderfer, I want to know the position of the
14 OMB. Is the OMB, in representing the President -- are you
15 stating that the President would support this package if it was
16 voted by this Committee in the majority?

17 Mr. Diefenderfer. Assuming the package that you held up is
18 the package that I am holding up, which is in fact revenue
19 neutral --

20 The Chairman. I sure hope it is the same.

21 Mr. Diefenderfer. Well, so do I, sir. But with that
22 caveat, we would stand exactly where Secretary Sullivan is, that
23 -- I do not want to repeat his whole statement -- but in the
24 end, yes, we would support it.

25 The Chairman. Well, I would like to hear it.

1 Mr. Diefenderfer. Well, I am glad to give it to you. We
2 prefer no change in the package -- in the catastrophic law. We
3 understand the political realities that it appears there is
4 going to be change. And if this program or this bipartisan
5 compromise as you have described it meets the three criteria,
6 which we believe it does, assuming we are talking about the same
7 package, then we could, yes, support it, sir.
8 The Chairman. Thank you.
9 Senator Packwood.
10 Senator Packwood. If you had a program that kept the
11 present hospital catastrophic benefits, would that -- now just
12 that part of it -- would you regard at least that part of it as
13 good health policy?
14 Dr. Sullivan. Very definitely, Senator Packwood. Because
15 as I indicated, we believe that what has been lost in recent
16 weeks in the discussion and debate -- the fact that this program
17 as enacted does meet a very specific need of our elderly
18 citizens -- that is to protect them from the potential of
19 catastrophic ruin from a major illness.
20 Senator Packwood. Well, the reason I asked that question
21 specifically, Mr. Secretary, I think all of us probably think
22 that everything in the program is good health policy. The
23 question is, it is not all politically stable and we can't have
24 it all. So at least the hospital benefits are good health
25 policy. They are probably politically stable. If we could make

1 them revenue neutral -- make that part of it revenue neutral --
2 then that would also be a policy the Administration could
3 accept. And if that's all this bill was, the Administration
4 could accept it.
5 Dr. Sullivan. That is correct.
6 Senator Packwood. I have no other questions, Mr. Chairman.
7 The Chairman. Let me state the order of seniority at the
8 start of the hearing. Bentsen, Packwood, Riegle, Heinz,
9 Moynihan, Durenberger, Roth, Danforth, Daschle and Baucus. With
10 that, Senator Riegle.
11 Senator Riegle. Mr. Chairman, I am not sure that I have any
12 specific questions for the Secretary at this point. I think the
13 two very clear assertions of position that we've just heard from
14 the Secretary and from OMB make it clear that the Administration
15 will support this package and does support this package if it
16 comes out of this Committee. So I am satisfied with that at
17 this point, Mr. Chairman.
18 The Chairman. Thank you.
19 Senator Heinz.
20 Senator Heinz. Mr. Chairman, I would like to get a
21 clarification from Secretary Sullivan about his answer to you,
22 and that is this. Mr. Secretary, it may very well come down in
23 the final analysis after we get through all of the alternatives
24 that we may discuss and that will be presented here today to
25 what might be a very simple choice and that choice might prove

1 to be this -- a choice between the so-called Part B co-payment
2 cap, probably delayed because it is quite an expensive benefit
3 under any circumstances; and the prescription drug out-patient
4 benefit.
5 The prescription drug benefit costs about $6.6 billion over
6 the 1990 through 1993 period. The Part B co-payment cap,
7 delayed, costs about $8.3 billion. Leaving aside the cost
8 difference for the moment, would the Administration favor
9 keeping one over the other or would you favor repealing one more
10 than the other if that was the choice that you had to face?
11 The prescription drug benefit would probably be scaled back
12 to helping about 15 percent of the people -- about 5.5 million
13 beneficiaries in any one year. The Part B co-payment helps
14 about one-third that many people -- about 5.5 percent as it
15 would be revised under the so-called bipartisan proposal.
16 Dr. Sullivan. Well, Senator Heinz, what we have stated, you
17 know, all along is our position has been, as I have stated it
18 before, not to favor any changes. But my position today here is
19 to respond to questions about specific elements of the bill
20 rather than to compare one versus the other.
21 Senator Heinz. Well, that is well and good. We may be
22 caught --
23 Dr. Sullivan. That is a priority for the Committee to make,
24 Mr. Heinz.
25 Senator Heinz. Then you are saying in terms of health

1 policy you like them both very much? In terms of health policy.

2 Dr. Sullivan. Yes. They are both in the bill that was

3 passed and certainly --

4 Senator Heinz. And you favor them both as health policy?

5 Dr. Sullivan. Yes, because they indeed meet a need of our

6 elderly citizens. Yes.

7 Senator Heinz. Thank you very much, Mr. Secretary.

8 The Chairman. Senator Moynihan.

9 Senator Moynihan. Mr. Secretary, this is a technical

10 question but of concern I know to you and to others and it could

11 quickly be resolved. In the legislation passed last year there

12 were a number of Medicaid provisions that were not directly

13 involved with this particular subject but were certainly at one

14 removed involved. One was the waiver for AIDS addicted babies.

15 That needs to be specifically stated. We need to require it be

16 clear that these children will continue to be eligible for

17 Medicaid under last year's provision.

18 Can I take it, sir, that you do support that?

19 Dr. Sullivan. Yes, we would support that, Mr. Moynihan.

20 Yes.

21 Senator Moynihan. I thank you, Doctor.

22 I thank you, Mr. Chairman.

23 The Chairman. Senator Durenberger.

24 Senator Durenberger. Mr. Chairman, I want to try to make

25 sure I understand what the Administration's position is by

1 asking a question that implies that, you are only here because
2 we asked you to be here. Otherwise, you would not be here on
3 this issue, right? I mean, the Administration did not ask us to
4 change the catastrophic bill.

5 Dr. Sullivan. No. Our position all along has been and
6 continues to be that we believe the best policy would be to get
7 more experience with the bill before changes are made.

8 Senator Durenberger. And the same Congress that had the
9 judgment by an overwhelming margin two years ago, which is now
10 obviously being called into question, to pass a bill that takes
11 of -- eliminates spousal impoverishment, adds substantial
12 benefits for mothers and children under Medicaid, puts
13 catastrophic and Medicare for the first time since 1965 so
14 people won't get ripped out by every rip-off artist out there
15 trying to play on their financial fears, has 25 percent in new
16 benefits -- drugs, mammograms -- the first time we have ever had
17 a preventive benefit in Medicare -- mammograms. This Congress
18 and this Committee put it in there, added respite care. And
19 then in addition to what we did here, substantially expanded the
20 skilled nursing facility benefit in order to respond to the
21 needs of the elderly of America to have some long-term care
22 coverage for the acutely ill elderly and added expansions to
23 home health. Ended any kind of a doubt about whether there
24 would be a policy to fund hospice in this country. That that
25 Congress is here changing its mind today.

1 Right? That's the only reason you are here.
2 Dr. Sullivan. Well, I am here to respond to those proposed
3 changes that the Congress is considering, yes.
4 Senator Durenberger. Right.
5 Dr. Sullivan. Let me also add on one specific benefit that
6 you commented on. I just came from a luncheon where we had
7 women who were leaders of organizations all over the country
8 where we were promoting the use of mammograms to save lives. We
9 lose 40,000 of our citizens every year from breast cancer that
10 we could save with the use of mammograms. That is one example
11 of why I continue to stress, I am here as the nation's chief
12 health officer to emphasize those things that are good health
13 policy.
14 Senator Durenberger. So it is fair to say then, Mr.
15 Secretary, the President of the United States does not oppose
16 taking mammograms or any preventive benefit like that away from
17 the elderly women of America. That is not his proposal. If
18 that comes, it is going to come from somebody on this Committee.
19 Dr. Sullivan. That is correct.
20 Senator Durenberger. It is also fair to say the President
21 of the United States is not in favor of eliminating the
22 provision we put in there to protect people from spending down
23 into poverty in order to put their Alzheimer victim spouse in a
24 nursing home. The President does not want to undo that either,
25 does he?

1 Dr. Sullivan. No. We have emphasized repeatedly that we
2 should stay the course with the legislation and that continues
3 to be our position.
4 Senator Durenberger. Is there anything here that the
5 President initiated? Any one of these unravelings of this
6 catastrophic bill that the President of the United States has
7 initiated and believes we should adopt?
8 Dr. Sullivan. No, Senator Durenberger, none whatsoever.
9 Senator Durenberger. So you are here in fact to be
10 responsive to the initiatives on the part of the Congress to
11 undo all of the benefits which just a year ago they thought the
12 people of this country deserved?
13 Dr. Sullivan. That is correct.
14 Senator Durenberger. Thank you.
15 The Chairman. Senator Roth.
16 Senator Roth. Thank you, Mr. Chairman.
17 You state as one of your requirements that the proposal be
18 revenue neutral. I would ask you as to whether or not you
19 consider revenue neutral according to Gramm-Rudman base line or
20 according to the program's real cost.
21 Mr. Diefenderfer. May I answer that, sir?
22 Senator Roth. Yes, Mr. Diefenderfer.
23 Mr. Diefenderfer. We consider it according to Gramm-Rudman
24 base line. The reason we do that is, if we ignore it and cause
25 the program or help the program to be amended and cause a loss

1 of revenue as compared to the Gramm-Rudman base line, we could
2 cause sequester this year and we are definitely and deadly
3 opposed to sequester; and that is why we are taking that
4 particular position.
5 Senator Roth. But if you avoid sequestration, you would be
6 willing to consider other proposals?
7 Mr. Diefenderfer. Well, other proposals to make up the
8 revenue or if it involves waiving Gramm-Rudman-Hollings? No. I
9 mean, if you are saying that what we should do is avoid it
10 through a technical glitch in the law once it gets past October
11 16 and then vote -- get the 60 votes to waive Gramm-Rudman-
12 Hollings, that is not good fiscal policy and we do not support
13 that, sir. It would increase the deficit by a substantial
14 amount anywhere between $4-7 billion.
15 Senator Roth. Well, I think the problem I have is that we
16 do not have adequate figures as to the cost of these programs.
17 If you go way back, last spring it was claimed that we could
18 reduce the surtax because it brought in more revenue than was
19 necessary for expenditures. Is that not correct?
20 Mr. Diefenderfer. That is correct, sir; and at that point
21 in time the President sent a letter up here and said that would
22 be pennywise and pound foolish not to act on premature revenue
23 estimates.
24 Senator Roth. My point is that in the spring we thought it
25 was bringing in too much money and yet in the latest CBO

1 reestimate of Medicare outlays we find that it is not revenue
2 neutral, but costs something like $200 million this year. Is
3 that correct?
4 Mr. Diefenderfer. Yes, sir. CBO has revised their cost
5 estimates. They are best to answer their own numbers. But it
6 has been revised significantly upward as the Committee found
7 out, having relied on erroneous figures earlier.
8 Senator Roth. So that these figures, such as SNF, the cost
9 of SNF has been continuously changing over the last several
10 months.
11 Mr. Diefenderfer. In one direction, sir, upward.
12 Senator Roth. Upward.
13 Mr. Diefenderfer. And there is no different --
14 Senator Roth. So, again, am I not correct in saying that we
15 do not have sound estimates as to what the cost of these various
16 elements of the program are today? They are constantly
17 shifting.
18 Mr. Diefenderfer. That is true and the constant shift is
19 upward. We know it is going to be much more expensive than
20 originally estimated when the Senate, and this Committee, and
21 the Congress, and President Reagan signed the bill.
22 Senator Roth. Well, that is the very point I am making. We
23 are talking about legislation that is revenue neutral. And the
24 fact is that what we have on the books is not revenue neutral.
25 It is costing more than anticipated. The trend is that every

1 time we reestimate the costs increase.

2 Now isn't it true at the very time we are talking now about
3 catastrophic health insurance we are also imposing the
4 obligation upon this Committee to reduce the cost of Medicare?
5 So with one hand we are raising costs and with the other hand we
6 are reducing costs. I would ask you, Dr. Sullivan -- because I
7 think we are all interested in a sound health program, but the
8 thing that concerns me is that we are trying to paper over the
9 problems that we created two years ago when we enacted
10 catastrophic health insurance.

11 Nobody here -- and I would ask Mr. Diefenderfer or anybody
12 else, you, Dr. Sullivan, or Mr. Brown -- can anybody with any
13 certainty anticipate what the various elements of this
14 catastrophic insurance program is going to cost? At best, they
15 are guesses.

16 Mr. Diefenderfer. The answer to that question is, yes, at
17 best they are guesses. All estimates that we give you at best
18 are guesses. I would say there is a greater margin of error in
19 these estimates than most.

20 Senator Roth. Well let me ask you this question, Dr.
21 Sullivan, from the standpoint of sound health policy.
22 Admittedly we do not know what these programs are going to cost.
23 It is a fact that we are spending something like 12 percent
24 today on health care in this country -- almost double what they
25 are spending in Great Britain. Wouldn't it be worthwhile to

1 step back and take a coherent long-term look as to where we are
2 going with health, rather than trying to just patch it over in
3 the next few hours?
4 Dr. Sullivan. Well, that gets to the position that I have
5 taken all along, Mr. Roth, and that is this. Certainly, I would
6 agree with the premise of your question that we should, indeed,
7 take careful deliberate actions with thorough analysis of the
8 problem and, indeed, there may very well be adjustments that
9 have to be made.
10 Our position, however, is that rather than making these
11 adjustments within a few months of enacting this program that we
12 should get more experience with this and make those adjustments
13 when we have more data from greater experience.
14 Senator Roth. But you do agree that we do not have adequate
15 data, adequate information, to reform today intelligently?
16 Dr. Sullivan. Yes, I would agree.
17 Senator Roth. Thank you, Mr. Chairman.
18 The Chairman. Senator Danforth.
19 Senator Danforth. I just said to Senator Roth, good job.
20 He made the points that I think should be made. But let me just
21 embellish on one of them, Doctor.
22 It seems to me that as we approach our national health care
23 needs we cannot do everything. That is, if you were to canvas
24 everybody on the Committee or everybody in the room about
25 America's health care needs, you might come up with 10, 20

1 different things that we should be doing.

2 Senator Durenberger mentioned a number of them that are in
3 the legislation we have before us. The Pepper Commission is
4 going to make recommendations next spring dealing with long-term
5 care, dealing with the 31 million Americans now who have no
6 health insurance at all. It seems to me that the wise thing to
7 do is to try to address all of these possibilities at one time.
8 In other words, to try to make some -- The way to make policy is
9 to try to determine how much of our national resources we are
10 going to commit to health care, then what are the various
11 possibilities and what are the priorities, and then try to make
12 decisions as a whole.

13 That is, in fact, the opposite of what we do. We kind of
14 get on our charger with respect to catastrophic care. We decide
15 to do it, then that is unpopular. We decide to undo it and we
16 are forever dealing with pieces of the total problem, rather
17 than the total problem together. Now the American people are
18 saying they are seriously troubled with this program. Many,
19 many people are saying they want to repeal it. In my view it
20 would be that they have given us an opportunity and the
21 opportunity is for a second look.

22 I guess my question to you is, how is it possible to create
23 sound health policy unless it is within a context? How is it
24 possible to make decisions as to priorities if we are dealing
25 with one issue at a time, rather than all issues together? And,

1 have we not precluded the kinds of things that the Pepper
2 Commission is supposed to be deciding if we keep this program
3 alive?
4 Dr. Sullivan. Thank you, Senator Danforth. I would say
5 this. I would agree with your statement that the best way to
6 make health policy is, indeed, to look at the total universe and
7 to deliberate these questions, analyze them very carefully, and
8 make deliberate decisions. The Pepper Commission certainly is
9 going to be helpful to us in that; and also the Steelman
10 Commission which I appointed, as you know, approximately some
11 two months ago, to work with us, to look at this question, as
12 well as our ongoing intradepartmental task force looking at
13 these issues as well.
14 That process will indeed take time. Certainly this
15 legislation is not perfect. We have never said that it was
16 perfect. It certainly has problems with it. But at least we
17 have that and for all of its imperfections, we believe that
18 rather than beat a hasty retreat in view of the clamor that
19 exists there, we would rather leave that in place while we get
20 further data and we also receive the benefit from the Pepper
21 Commission and the Steelman Commission and our intradepartmental
22 efforts as well.
23 So I would certainly agree with you, that in an ideal world
24 to start from a clean slate, that would be good. But we have
25 this legislation now. It is the result, indeed, of a lot of

careful deliberation I am told. Of course, I was not here at that time.

But certainly, as I have reviewed with my colleagues in the Department the history of this, that has been the case. It certainly may need adjustment, but we are saying that we should indeed do those adjustments when we have further data and really at a time when quick fixes are not tried because we are concerned that we may create further problems unwittingly by making hasty decisions under great pressure.

Senator Danforth. Thank you, Mr. Chairman.

The Chairman. Senator Daschle.

Senator Daschle. Mr. Chairman, I guess I would just want to pursue that a little bit further.

If in the face of pending repeal, what would be the Administration's position in the face of a pending repeal -- if it looks as if we go to the floor tomorrow and something like the McCain amendment would pass -- what would be the Administration's solution?

Dr. Sullivan. Well, our position --

Senator Daschle. I know what your position is on the original plan, Dr. Sullivan. But if you were us, if you were quarterbacking our strategy right now, if we had just done a head count and realized the vote was 70/30 in favor of repeal, what would you have us do?

Dr. Sullivan. Well, first of all I am not quarterbacking

1 the Committee, Mr. Daschle, and I want to emphasize that. But I
2 am here, indeed, to be helpful.
3 Senator Daschle. Be helpful to us and put yourself in our
4 position then. It is not good enough to say, it is your
5 problem. I guess that is what we are trying to say. What would
6 you do?
7 Dr. Sullivan. Mr. Daschle, we want to do everything we can
8 to preserve the core benefit.
9 Senator Daschle. To preserve the core benefit?
10 Dr. Sullivan. Yes. We think that repeal would be a very
11 serious mistake.
12 Senator Daschle. You want to do everything to preserve the
13 core benefit. Now one of the most abhorrent parts of this
14 program, if we listen to our senior citizens, is the self-
15 financing part of it. You just said you will do everything you
16 can to keep the core benefits. Does that include eliminating
17 the self-financing aspects of the current catastrophic plan?
18 Dr. Sullivan. Well, the specifics -- I would certainly not
19 want to get into one --
20 Senator Daschle. No, that is a fair question. It is a very
21 simple question. It is: Do you support the elimination of the
22 self-financing plan?
23 Dr. Sullivan. That is a hypothetical situation, as you
24 know.
25 Senator Daschle. Well, it won't be hypothetical in a couple

1 of minutes because we are going to have to address that issue.
2 How would you vote?
3 Dr. Sullivan. Again, Mr. Daschle, I am not here to pick
4 this legislation apart piece by piece.
5 Senator Daschle. That is not good enough. Just tell us how
6 you would -- What is the Administration plan? Because,
7 obviously, that could affect how somebody votes on this issue --
8 does it have the Administration blessing or not.
9 Dr. Sullivan. Our position, again, I want to repeat, is
10 that we would rather not tamper with the legislation at all.
11 Senator Daschle. Okay, you have made that clear.
12 Dr. Sullivan. However, if indeed that decision is made to
13 strip off the benefits in this program, we would indeed think
14 that that would be a less onerous decision than outright repeal
15 of the entire program.
16 Senator Daschle. Okay. So if we stripped down to the core
17 plan and then the question is, how do we fund the core plan.
18 Given your statement about being willing to support anything to
19 ensure that we protect the core plan, would that include
20 something other than self-financing?
21 Dr. Sullivan. We would have to look at the figures on that
22 because I think we have given you the criteria that we would use
23 in judging whatever the Committee comes up with first of all,
24 from my perspective has to indeed be a sound decision from a
25 health policy standpoint; secondly, indeed it has to be revenue

1 neutral. There we would have to look at the specifics.
2 Senator Daschle. Well let's be specific then in what
3 limited time I have. Would you include the inclusion of State
4 and local employees under Medicare?
5 Dr. Sullivan. That we, indeed, would do. Yes.
6 Senator Daschle. So taking this one step further, you would
7 be willing then to break out of the self-financing concept to
8 include taxing State and local employees who have not yet been
9 taxed?
10 Dr. Sullivan. Well, the expansion of the participants in
11 the program -- yes, we would agree with that.
12 Senator Daschle. Okay. If you would be willing then to tax
13 State and local employees for the first time, would you be
14 willing to improve or -- not improve, but increase the tax on
15 health insurance?
16 Dr. Sullivan. Well let me say this, Senator Daschle, we
17 have never used the word tax in this. This is a premium. We
18 are looking at this as providing a health benefit for our
19 citizens.
20 Senator Daschle. Well to improve the premium collection
21 under health insurance, would you increase the premium on health
22 insurance to, say, $60,000?
23 Dr. Sullivan. That is a situation we would have to look at
24 the specifics.
25 Senator Daschle. Well, that is going to be a proposal.

1 Mr. Diefenderfer. May I answer your question? Dr.
2 Sullivan, this is a question that Treasury has lead
3 responsibility on and the answer to that -- and I have given the
4 Committee before -- is no. We would not. We consider that a
5 duc.
6 Senator Daschle. You do not include State and local
7 coverage a duc, but you include increasing the premium on health
8 insurance a duc?
9 Mr. Diefenderfer. That is correct, sir. We had the
10 increase on State and local premium in our budget. The previous
11 Administration supported it. This Committee, in fact, has
12 supported it in the past; and we do support it.
13 Senator Daschle. Thank you, Mr. Chairman.
14 The Chairman. Thank you.
15 Senator Baucus.
16 Senator Baucus. Thank you, Mr. Chairman.
17 Dr. Sullivan, you said that the President does support the
18 Committee package if it is necessary to prevent a repeal of
19 catastrophic health insurance; is that correct?
20 Dr. Sullivan. That is correct.
21 Senator Baucus. Would the Administration also support
22 another package if it is necessary to prevent repeal, but a
23 package which has fewer benefits and a substantially lower
24 supplemental premium? For example, the Committee package does
25 eliminate drug benefits in order to reduce the supplemental

1 income tax. If the Committee package, or a package, also
2 eliminated the Part B cap, so as to avoid the supplemental
3 income tax, but nevertheless retain the core benefits and some
4 modest outside way were found to find the additional revenue
5 necessary and that would be the tax on health insurance paid by
6 State and local employees, would the President also support that
7 package? That is if that package were the package necessary to
8 prevent a repeal.

9 Dr. Sullivan. I'm sorry, I did not follow you completely.
10 If you could describe that again for me.

11 Senator Baucus. Essentially, it is the package before us,
12 but not only is drug benefits repealed but the Part B cap is
13 also repealed, the result being that the financing would be only
14 the flat tax -- the premium tax -- and also the State and local,
15 but would not require a supplemental income tax.

16 Dr. Sullivan. To your question as to whether we would
17 support the elimination of the cap, no, we do not support the
18 elimination of the cap on out-of-pocket expenditures.

19 Senator Baucus. Even if that is necessary to prevent repeal
20 and keep the core benefits?

21 Dr. Sullivan. No. That is a hypothetical situation at this
22 juncture. We would certainly not want to see the elimination of
23 the cap on out-of-pocket expenditures. If that were necessary
24 to prevent repeal, we would really have to look at that at that
25 time.

1 Senator Baucus. Well, Dr. Sullivan, I would just suggest
2 that the supplemental tax is so much opposed by so many seniors
3 that that either has to be cut dramatically or repealed in order
4 to retain the core benefits. And it is my personal judgment
5 that the package before us does not go far enough to lower the
6 supplemental tax -- that is, if we are going to retain the core
7 benefits, the supplemental tax must be dispensed with. We have
8 a responsibility to do so; and if we cannot do that, this must
9 be repealed, so that we can come back at a later date.
10 But I just firmly suggest that the seniors in this country
11 and the United States Congress will not in the final analysis go
12 along with a program, a package, which still retains a quite
13 high supplemental income tax. If we are going to retain these
14 core benefits we are going to have to go still further in luring
15 that supplemental income tax so that we can retain the core
16 benefits.
17 I thank the Chair.
18 The Chairman. Senator Matsunaga.
19 I must say I see there is a vote there. Senator, if you
20 would preside I am going to go over. You stay as long as you
21 can and I will go over and come back. And whomsoever wants to
22 can go vote now. Then if I am not back in time, if you would
23 recess and come over until I get here. Will you?
24 Senator Matsunaga. Mr. Secretary, it is my understanding
25 that the Administration is opposed to repeal of the present law.

1 Dr. Sullivan. That is correct.
2 Senator Matsunaga. And that the Administration supports the
3 bipartisan package which is now before this Committee.
4 Dr. Sullivan. Senator Matsunaga, our position is that we
5 would prefer not to have the legislation altered at this time.
6 That has been our position all along because this legislation we
7 feel meets a very real need of our senior citizens, protecting
8 them from financial ruin from major illness during their
9 declining years.
10 That has been our position and continues to be our position.
11 But we also recognize the tremendous pressures that this
12 Committee is under and we have all along worked with this
13 Committee. We have wanted to cooperate and we recognize the
14 pressure that you are under. So we are saying that if our
15 position does not hold, we would certainly not want to have the
16 core benefits lost. We would not want to have the legislation
17 repealed.
18 So we are here to respond to your questions as to ways this
19 can be modified in order to have the program continued in some
20 basic form.
21 Senator Matsunaga. The Administration, of course, is
22 cognizant of the fact that both in the House and in the Senate
23 there is a threat for repeal and the possibility of repeal. Is
24 this the present reaction on the part of the Administration
25 after talking to members of the Congress?

1 Dr. Sullivan. Senator Matsunaga, we certainly would look at
2 each proposed change to see that it does meet our criteria of
3 being good health policy, and being revenue neutral, and being a
4 politically stable item. If it meets those criteria, we would
5 not oppose those changes if that is necessary to avoid an
6 outright repeal of the legislation.
7 Senator Matsunaga. So the Administration would prefer
8 amendments to the present law rather than have an outright
9 repeal; that's your position?
10 Dr. Sullivan. We would prefer that no amendments be made.
11 Following that, our second position would be, indeed, to not
12 oppose amendments that meet the criteria that we have
13 enunciated. If, indeed, that is the alternative to outright
14 repeal, yes.
15 Senator Matsunaga. Well, I guess the point I am trying to
16 drive at is to determine whether this Committee, once it reports
17 this package out, will have the active support of the
18 Administration among Republican members because definitely we
19 would need the support of Republican members on the floor in
20 order to pass this package which we, members of the Committee,
21 feel that is necessary to save repeal.
22 Dr. Sullivan. Senator Matsunaga, indeed, our position is
23 that if the amendments meet the criteria that we have enunciated
24 and the adoption of those amendments would indeed be necessary
25 to prevent the repeal of the entire legislation, the

1 Administration indeed would support those amendments. And we
2 would certainly urge our colleagues in the Senate indeed to
3 support them.
4 Senator Matsunaga. Thank you very much.
5 It seems nobody is around. I think I will call recess at
6 this time and go to vote before I miss that vote. The Committee
7 stands in recess subject to the call of the Chair.
8 (Whereupon, the meeting recessed and resumed at 4:12 p.m.)
9 The Chairman. The hearing will come to order.
10 Senator Chafee.
11 Senator Chafee. Thank you, Mr. Chairman.
12 Dr. Sullivan, you have indicated that the suggestion of the
13 proposal by Senator Bentsen, or the proposal that eliminates the
14 prescription but keeps a series of other benefits, would be
15 acceptable and with all your caveats about if you could have the
16 whole thing that would be better. How about, if we might say,
17 the reverse side of that? Namely, a proposal that concentrated
18 on what I truly believe -- and this is self-serving because I
19 have an amendment to this effect -- what I truly believe is the
20 catastrophic part -- namely, the prescription drug -- and not
21 the Part B and keeping the core benefits changed somewhat.
22 I think the question really revolves on the accent being on
23 the prescription drugs which are not available as you so well
24 know under most Medigap or probably any Medigap type proposal,
25 whereas the Part B is. Thus, it seems to me that that approach

1 is the nature of catastrophic. What would be your reaction to
2 that and could the Administration support that?
3 The Chairman. Senator, if I just might interpose a minute.
4 That was not the Bentsen proposal. That was a package and
5 hopefully a bipartisan package after talking to members on both
6 sides of the aisle with their recommendations and mine.
7 Senator Chafee. All right. I apologize if I
8 mischaracterized it and obviously I did. Most people like to
9 have their names on things. So in a way I was flattering you.
10 (Laughter)
11 Senator Chafee. This is the Chafee proposal I am discussing
12 with you -- C-H-A -- one F -- two Es.
13 (Laughter)
14 Dr. Sullivan. Mr. Chafee, the Sullivan reply is this. We
15 certainly -- our position again is we would prefer no changes.
16 However, we recognize the pressures that we are under. We would
17 support any changes that this Committee chooses to make, short
18 of repeal of the entire package, if those changes are judged
19 necessary to avoid such repeal.
20 We are certainly not here to debate the merits of one
21 proposal versus the other. Our position, again, as we have
22 indicated, is it should be good health policy.
23 Senator Chafee. And it should be revenue neutral.
24 Dr. Sullivan. Right.
25 Senator Chafee. Now if I understand Mr. Diefenderfer, the

1 inclusion of the State and local, as part of the funding
2 mechanism to make it revenue neutral is not considered going
3 outside the acceptable parameters. Am I correct in that?
4 Mr. Diefenderfer. That is correct, sir. The Administration
5 has supported in the past the inclusion of State and local and
6 we would be hard pressed to deny it for these purposes. So your
7 conclusion is correct.
8 Senator Chafee. Thank you.
9 Mr. Chairman, do I have a little time left?
10 The Chairman. Yes, you do.
11 Senator Chafee. Directing a question to you, Mr. Chairman.
12 I do have this amendment. At the proper time I would like to
13 offer it and I am sure we will have some time. But I just
14 wanted to -- I have an amendment I would like to go forward
15 with.
16 The Chairman. Thank you, Senator.
17 Senator Chafee. Thank you, Mr. Chairman.
18 The Chairman. Senator Symms.
19 Senator Symms. Thank you, Mr. Chairman and Dr. Sullivan and
20 Mr. Diefenderfer.
21 I guess I have two questions that I would like to ask. If I
22 understand you correctly, the Administration would like to keep
23 the current law on the books.
24 Dr. Sullivan. That is correct.
25 Senator Symms. Okay, number two then, really to be directed

1 to Mr. Diefenderfer. What about the concern of the
2 Administration with respect to the rising cost estimates,
3 particularly for the skilled nursing and the drug portion that
4 looks like it is going to go, you know, very tangentially up in
5 cost to this and be a negative on the budget? How do you handle
6 that one then? I would ask it of both of you.
7 Mr. Diefenderfer. We are very concerned about that, sir.
8 We have a number of things to balance. One is, we think it
9 would be better health policy to let this particular law stay in
10 effect for a year and we have to balance that against the rising
11 cost. In addition, we would like -- We are sure the costs are
12 rising. There is no doubt about that. The question is: How
13 high? We would like to have a year's worth of evidence in to
14 know exactly where we are so we can make reforms if they are
15 necessary -- and they probably will be necessary at a later time
16 -- with the best possible data that we can have.
17 Senator Symms. Did you have anything you wanted to add to
18 that, Doctor?
19 Dr. Sullivan. No.
20 Senator Symms. Is it possible that you would be in favor of
21 ramping -- I mean, you see the nursing home are ramping up,
22 hiring nurses, getting geared up to handle this load that has
23 been moving and expanding in their direction. Is it possible
24 that you would be favorable to a bigger co-payment or a bigger
25 front end payment on the part of the users of the benefits than

what is in the current law?

Dr. Sullivan. Obviously, Senator Symms, we would want to look at the specifics when you say a bigger co-payment; and certainly we would review this with our experts in our Department there. But I think until we have, you know, something more specific I don't think we would.

Senator Symms. Well, the reason I asked the question, when I heard President Reagan speak about catastrophic and the things that I had said about it -- And I happen to be one of the 10 or 11 Senators that did not vote for this bill when it passed the Senate the last time. No offense to my colleagues on the Committee. But I just did not feel that it really did what it was that the rhetoric talked about.

So I guess the next part of the question is: How much would it cost? You may not be able to have this answer today. But I would certainly like to have these figures. How much would it cost to include all age groups in a truly long-term health care program for catastrophic illness if you had some kind of a target, let's say the premium was going to be in the $1 or maybe maximum $2 a month range, considering younger people would have less demand on the system, and a bigger front end load, some type of a co-payment or that you have to put up a certain amount of cash on the front end for those people that are not Medicaid recipients, so that we would, in fact, truly have catastrophic coverage? How difficult would that be to accomplish and is that

1 doable -- the last part of the question -- if we go ahead and
2 repeal this particular piece of legislation and just start over?
3 So that we really have catastrophic health care.
4 Dr. Sullivan. Senator Symms, we certainly would need to
5 have time to review and analyze that before getting back a
6 specific response to you, but I would also add that we would
7 think it would be preferable.
8 (Continued on next page.)
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1 (CONTINUED FROM PRECEDING PAGE)

2 Senator Symms. On the parent program we still have not addressed
3 the question of long-term catastrophic care for middle America, whether
4 they be 65 years old or 40 years old, and having that problem of the
5 spousal proverty and the Family Poverty Act as a catastrophy, but we
6 are spending some 10, 11, 12 percent of the GNP on health care already.
7 It just seems to me like what we need is to have a recognition that we
8 need to put up more money on the front end of this thing by the user who
9 does get hit with the catastrophy, but have some cushion in there so
10 that they do not have to worry about that throughout their life, and
11 particularly for those elderly people.

12 Senator Mitchell. Mr. Chairman, I introduced that legislation last
13 year.

14 Senator Symms. But I would like to see the cost estimates is what
15 I am interested in.

16 Senator Mitchell. I will send them to you.

17 They could take the full benefits after two years, that is, we
18 could make the provisions of reimbursement applicable only after two
19 years. And that would be probably about $25 billion a year.

20 Senator Symms. I would like to look at that. I appreciate it.

21 Senator Mitchell. I invite the Senator to participate.

22 Senator Symms. Thank you.

23 The Chairman. Senator Roth.

24 Senator Roth. Following my line of questions yeastedday I did
25 discuss with the parlimentarian, or one of them, as to what our rights

1 would be if the reform package is part of reconciliation, and I was
2 advised that our rights would be essentially limited to a motion to
3 strike the reform package. We would not have the right to introduce a
4 motion to nullify or amend the proposal. So this is a matter that I
5 think, at least on our side, and probably on both sides, is a matter of
6 great concern because it is an extremely important piece of
7 legislation. And where we go, should we see the full consideration of
8 the Senate as well as this Committee. So that I am concerned
9 personally with my proposals. I want to offer a resolution to revoke
10 the current legislation at the appropriate time, but I want to ensure
11 that that right is protected on the floor.

12 Senator Dole. Just without asking the Chairman to respond, I
13 think it is an issue or a concern that should be raised because it is
14 hard for a few of us to support anything if we are going to be denied
15 many Republicans on our side any chance to offer modifications or to
16 repeal or whatever they like to do on the Senate floor. We would rather
17 come up in separate legislation, then you would not have that problem.
18 But I can understand if I were the Chairman I would probably prefer
19 bringing it up in reconciliation.

20 But the other side of that is it could become such an issue because
21 it is highly controversial that you might defeat reconciliation. Your
22 vote might become up or down on catastrophic illness. And I think there
23 are members on both side who have deep concerns because a lot of this
24 information that Senator Bradley pointed out--not complete information;
25 put it that way--about really what is going to happen.

My view is we are going to hear from a lot more people if we just flat out and repeal this than we are hearing from now, and they are going to have good cause to be after us. But that is my view. That is not the majority view on the Republican side.

So I would appreciate, if I am going to work with the Administration and with the Chairman, but as the Republican leader I have got to have enough latitude to protect what I consider to be probably the majority on this side who may have a different view. So I just want to make that point because it might have an impact on the vote in the committee. I have discussed it with Senator Packwood and I think that is his view also.

The Chairman. Let me state on that that part of the problem that the chair would face and that this committee would face--and this I want to think through--is the fact that the House is apparently going to address this on reconciliation, and might insist that it be addressed by the conferees in that regard on the reconciliation bill. So that complicates the problem for us and I would want to give some thought about it. And in line of what the Minority Leader has just stated about the position of flexibility on the part of the Administration, I recall early on this situation that the Administration, as I understand it, was supporting it being a part of reconciliation.

I heard you, Dr. Sullivan, today saying, as I understood it, that you wanted it apart from reconciliation. Now at what stage are we in the decision making process?

Dr. Sullivan. Yes, you are correct, Mr. Chairman.

1 The Chairman. Also that the Administration previously wanted it
2 as a part of reconciliation and that was the information they were
3 giving us.
4 Dr. Sullivan. Certainly.
5 The Chairman. Let me ask Mr. Diefenderfer. Isn't that correct,
6 Mr. Diefenderfer?
7 Mr. Diefenderfer. I am not aware of that, sir.
8 The Chairman. I have been advised the Administration's position
9 was.
10 Mr. Diefenderfer. I am not aware of that. We have not resisted.
11 We would rather not have it in reconciliation. One of the reasons is
12 the line that Senator Dole reflected. While this committee may find that
13 acceptable political balance that we can solve--and I will agree on it--
14 perhaps it will pass the floor. But if we have mixed measure, and there
15 is one or two other things that have to be done, and there is no
16 opportunity to do that to get that acceptable political balance, and the
17 only opportunity they have on the floor is to strike or to vote yes, we
18 may need some opportunity.
19 The Chairman. All right.
20 Senator Armstrong. Mr. Chairman.
21 The Chairman. Yes.
22 Senator Armstrong. If I could just elaborate further. I agree
23 with what Senator Dole has said. But I also want to offer the
24 additional concern that every day we are hearing of new items, not just
25 catastrophic health care, but all kinds of subsidy legislation that

1 somebody or the other wants to fold into reconciliation. Now the list
2 that I have heard about is that they are intended to be folded into
3 reconciliation either here or by the House. Some of them I like and some
4 of them I don't. But my concern is that I believe it would be my
5 position to not want to add any extraneous unrelated legislation in
6 the reconciliation bill. But my concern is that if we do that we are
7 going to end up completely breaking the legislative process. And we
8 have gone the distance in that direction already.

9 The Chairman. Thank you.

10 I see there is a vote on. The majority leaders is here and I see
11 it is your turn. Would you care to comment before we go to vote?

12 Senator Mitchell. A heck of a lot of time to speak.

13 (Laughter)

14 The Chairman. I would like you to defer until we come back from
15 voting.

16 Senator Mitchell. I would just like to ask Senator Armstrong a
17 question. This is your position on reconciliation. I would inquire,
18 has that been the Senator's position through previous years when we had
19 reconciliation before us?

20 Senator Armstrong. There may have been times when it hasn't, but I
21 believe it has, yes,sir. In fact, I pointed out to my friend, Bob
22 Packwood, that he pioneered the use of the reconciliation bill for
23 unintended purposes.

24 Senator Mitchell. I recall when the Republicans were in the
25 majority that that devise was developed to new and innovative heights.

1 Senator Armstrong. I would not quarrel with the leader on that,
2 but my point is this, that in reaction to that I believe that we took
3 some steps to avoid that, Senator Packwood did and just a number of
4 members of the Federal Communications Committee. And I think it was a
5 general feeling by the then Democratic leader particularly the status
6 of the use of the property and it is an abuse of the property. And we
7 shouldn't get deeper into that. We have done some of it, but they are
8 talking about doing it on a purely staggering scale this year. And if we
9 do that you are going to eliminate the use of reconciliation as a tool
10 because in many instances you are electing to ever vote before the
11 reconciliation instructions begin.

12 Senator Mitchell. I respect the Senator's point and I think it is
13 well taken. It might have greater force if it had been made earlier at
14 a time when the Republicans were in the majority and using that
15 mechanism in a manner that he now describes.

16 The Chairman. Gentlemen, let me interrupt for just a moment here
17 because we are about to run out of our time on the vote. And I was
18 asked by a number of the members if we would delay votes until tomorrow
19 because we have some problems with the estimators, and changes has been
20 made in amendments, and we have had a new issue put to us here. So we
21 have this vcte. And we will return to this problem tomorrow.

22 Mr. Secretary, we are very appreciative of your having been here.
23 And tomorrow we will take your assistant and Mr. Diefenderfer.

24 Dr. Sullivan. Thank you.

25 (Whereupon, at 4:38 p.m. the meeting was concluded.)

MR. CHAIRMAN; MR. PACKWOOD; MR RIEGLE
MR. HEINZ; MR. MOYNIHAN; MR. DURENBERGER
MR. ROTH; MR. DANFORTH; MR. DASCHLE
MR. BAUCUS; MR. MATSUNAGA; MR. CHAFEE
MR. SYMMS; MR. BRADLEY; MR. ARMSTRONG
MR. ROCKEFELLER
MR. BOREN
MR. DOLE
MR. MITCHELL

UNITED STATES SENATE
COMMITTEE ON FINANCE

Executive Session

Wednesday, September 20, 1989 - 3:00 PM
SD-215 Dirksen Senate Office Building

A G E N D A

I. To consider legislation reforming the Medicare Catastrophic Coverage Act of 1988.

AGING COMMITTEE MAJORITY STAFF ESTIMATE FOR CATASTROPHIC PROGRAM

AS MODIFIED BY SENATOR PRYOR'S PROPOSAL "A"
($ in Millions)

	1990 Cost	1991 Cost	1992 Cost	1993 Cost	1990-93 Cost	% Who Benefit
BENEFITS						
Part A Benefits						
Hospital	1302	1411	1533	1671	5917	n/a
SNF* +	1800	3600	3600	3600	12600	n/a
Home Health	129	183	194	208	714	0.9%
Hospice	1	1	1	1	4	0.1>
Part B Benefits						
Part B Copay Cap*	0	0	0	0	0	0%
Respite Care	67	161	263	418	909	0.1>
Screening mammography	75	123	138	147	483	11.1%
Rx Drug Benefit						
"Mitchell" Drugs**	76	162	185	203	626	0.2%
Other Rx Drugs*	0	0	2100	2800	4900	15.0%
MCCA Administrative Expenses	244	715	916	1000	2875	
Total Medicare Costs	3694	6356	8930	10048	29028	
INCOME						
Supplemental Premium (15% / $585 max.)	4957	4463	3884	4061	17365	
Flat Monthly Premium	1847	2732	3586	4147	12312	
State/Local in HI	1200	1900	1900	1900	6900	
Total Income	8004	9095	9370	10108	36577	
Net Medicare Effect	-4310	-2739	- 440	- 60	-7549	

FOOTNOTES

* Benefits changed from current law by Sen. Pryor proposal, budgetary effect of these changes to current law not CBO estimates.

** Assumes the "Mitchell" drug deductible as in current law, unchanged by Sen. Pryor proposal.

+ Assumes new $3.6 Billion/year cost for Catastrophic SNF benefit, 50% 1 year savings from reinstating "sunsetted" 3-day prior hospitalization.

18-Sep-89
07:49 PM

PROPOSED
BIPARTISAN COMPROMISE
(by fiscal year, in millions of dollars)

I. CURRENT LAW BENEFITS	1989	1990	1991	1992	1993	1989-93 Outlays
A. Hospital	893	1293	1401	1522	1659	6768
B. Blood Deductible	6	9	10	11	12	48
D. Home Health	0	129	183	194	208	714
E. Respite	0	0	22	48	77	147
F. Screening Mammography	0	75	123	138	147	483
G. "Mitchell" Drugs	0	76	162	184	225	647
H. Hospice	1	1	1	1	1	5
I. Administrative Costs (1)	160	88	94	98	103	543
TOTAL FOR CURRENT LAW BENEFITS	1060	1671	1996	2196	2432	9355

REVISED BENEFITS	1989	1990	1991	1992	1993	1989-93 Outlays
A. Part B Copayment Cap Delayed one year and set to affect 5.5 % of beneficiaries (Cap Amount $1,780 in 1991)	0	0	1700	3090	3479	8269
B. Administrative Costs	0	84	131	136	142	493
C. Reinstate SNF 3 day prior rule for admissions on or after 1-1-90 (2)	900	1900	1800	2000	2200	8800
D. Part B Opt Out (3)	0	100	300	200	200	800
TOTAL FOR REVISED BENEFITS	900	2084	3931	5426	6021	18362
TOTAL MEDICARE BENEFITS	1960	3755	5927	7622	8453	27717

III. MEDICAID BENEFITS	1989	1990	1991	1992	1993	Outlays
Buy-in to Medicare	106	231	435	591	665	2028
Spousal Impoverishment	-6	358	339	210	229	1130
Pregnant Women/Infants	5	50	125	160	195	535
Offsets/Other (4)	-155	-283	-439	-560	-619	-2057
SUBTOTAL FOR MEDICAID	-50	356	460	401	470	1636
TOTAL FOR OPTION 1	1910	4110	6387	8023	8923	29353

(1) Administrative expenses for the Medicare program are subject to Appropriation Committee action and thus are not scored as direct spending changes. Changes in administrative expenses are taken into account for purposes of calculating trust fund balances and required premiums.

(2) The estimate of the effect of reinstating the 3 day prior hospitalization requirement for SNF stays is based on extremely limited, qualitative information and is therefore highly uncertain.

(3) The Part B opt out estimate is preliminary pending resolution of financing of the package.

(4) Medicaid offsets will vary according to the final catastrophic package.

Medicare Catastrophic Options

ESTIMATES OF REVENUE EFFECTS OF A SUPPLEMENTAL PREMIUM OPTION WITH A 12% RATE AND A $585 CAP

Fiscal Years 1989-1993

[Millions of Dollars]

Item	1989	1990	1991	1992	1993	1989-93
I. PRESENT-LAW RECEIPTS[1]						
A. Flat Premium	1,165	1,847	2,732	3,586	4,147	13,477
B. Supplemental Premium	531	6,457	7,163	6,784	7,561	28,496
TOTAL	1,696	8,304	9,895	10,370	11,708	41,973
II. REVENUE EFFECT OF OPTION	--	-2,161	-3,292	-3,378	-4,040	-12,871
III. RECEIPTS UNDER OPTION						
A. Flat Premium	1,165	1,847	2,732	3,586	4,147	13,477
B. Supplemental Premium	531	4,296	3,871	3,406	3,521	15,625
TOTAL	1,696	6,143	6,603	6,992	7,668	29,102

Joint Committee on Taxation
September 19, 1989

[1] Receipts estimates are from the July 1989 Congressional Budget Office re-estimate.

CHAFEE PROPOSAL

The objective is to modify the Act in a way that retains as many of the benefits that the elderly say they need and want -- while still achieving a substantial reduction in the supplemental premium.

This package focuses on retaining the long-term care benefits that the elderly say they want most, and that are not widely available to them in the private market: prescription drugs; skilled nursing facility care; respite care; and hospice care.

Benefits:

- o retains all Part A hospital benefits, home health, and respite care.

- o modifies SNF benefit by reinstating 3-day rule for one-year, pending GAO study of cost factors. Those currently in SNFs would be grandfathered.

  (Coinsurance on SNF benefit would be increased. Still awaiting CBO estimates of savings.)

- o eliminates Part B copayment cap. Retains respite care and mammography.

- o scales prescription drug benefit back to 16.8 percent participation.

- o offers part B opt-out

Premiums:

- o reduces rate to 12.5 percent throughout the four-year period (current law: 15% in 89, 25% in 90; 26% in 91; 27% in 92; 28% in 93)

- o sets maximum supplemental premium at $650 and maintains it at that level throughout the four-year period. (Current law caps for individuals: $800 in 89; $850 in 90; $900 in 91; $950 in 92; $1050 in 93)

  The combined effect is a premium reduction of 45 percent.

CHAFEE PROPOSAL -- 9/20/89
(9/19/89 CBO estimates -- $ in millions)

	90	91	92	93	90-93
Part A Benefits					
Hospital	1302	1411	1533	1671	5917
* SNF: reinstate 3-day rule for 1 yr; GAO study	1900 **	3100	3400	3600	12000
Home Health	129	183	194	208	714
Hospice	1	1	1	1	4
Part B Benefits					
* Copayment cap: eliminated	0	0	0	0	0
Respite care	0	1	129	205	335
Mammography	75	123	138	147	483
Prescription Drugs					
Mitchell drugs	76	162	184	225	647
* Other drugs at 16.8% '91 implementation	0	964	2405	3351	6720
Part B Opt-out	100	300	200	200	800
Administrative Costs	78	541	734	811	2164
TOTAL MEDICARE COSTS	3661	6786	8918	10419	29784
INCOME					
* Supplemental: 12.5% rate; cap at $650	-4657	-4163	-3684	-3761	-15625
Flat: same as current	-1847	-2732	-3586	-4147	-12312
* State/local workers	-1200	-1900	-1900	-1900	-6900
TOTAL MEDICARE INCOME	-7704	-8795	-9170	-9808	-35477
NET MEDICARE EFFECT	-4043	-2009	-252	611	-5693
BUDGET BASELINE	-4191	-2045	638	828	-4770

* indicates change from current law
** reflects costs of grandfathering current residents and 40 percent savings from 1-yr. reinstatement of 3-day rule.

HEINZ "CATASTROPHIC, INDEPENDENT CARE & ANTI-IMPOVERISHMENT" AMENDMENT
9/20/89

(in millions)

	1990 cost	1991 cost	1992 cost	1993 cost	90-93 cost	% benf.
BENEFITS:						
CATASTROPHIC/ANTI-IMPOVERISHMENT						
Part A Catastrophic:						
Hospital	1293	1401	1522	1659	5875	3%
Blood Deduc.	9	10	11	12	42	*
Admin,	167	174	181	189	711	
Total A	1469	1585	1714	1860	6,628	
Medicaid Family Anti-Impoverishment						
Buy-In	231	435	591	665	1,922	
Spousal	358	339	210	229	1,136	
Preg/Infants	50	125	160	195	530	
Offsets	-109	-235	-335	-371	-1,050	
Total XIX:	530	664	626	718	2,538	
TOTAL	1999	2243	2340	2578	9,166	
FINANCING (1)						
Reduced Flat Prem. (Hold at $5.46 in FY92)	-1847	-2732	-2787	-2843	-10,209	
MCCA LONG TERM CARE:						
Rx Drug (2) (Including Mitchell):	76	1260	2576	2734	6,646	13.4%
Home Health	129	183	194	208	714	6.0%
Hospice	1	1	1	1	4	*
Mammography	75	123	138	147	483	15.0%
Revised SNF (3)	1088	992	1101	1210	4,391	1.0%
Admin.	77	541	735	811	2,164	
+ Total MCCA:	1446	3100	4745	5111	14,402	
New LTC/Indep. Living (4)						
Improved Respite	67	161	263	418	909	1.0%
Alzheimer's Respite	36	109	210 ~~numbers~~	330 ~~pending~~	685	*
Total:	~~8~~ 103	~~247~~ 270	~~596~~ 473	~~754~~ 748	1,594	assumes 100,000 people at full implemen
Opt-Out w/ Part B	100	600	300	300	1,300	
TOTAL LTC/OPT-OUT	1546	3944	5641	6165	17,296	
FINANCING (5)						
Reduced Supp. 50%	-3757	-3463	-2984	-3761	-13,965	
State & Local	-1200	-1900	-1900	-1900	- 6,900	
Part B at 25%	-400				- 400	
Total:	-5357	-5363	-4884	-5661	-21,265	

NET MEDICARE/BUDGET EFFECT

TOTAL MEDICARE:	3015	5529	7355	8025	23,924
TOTAL INCOME:	-7204	-8095	-7671	-8504	-31,474
NET MEDICARE:	-4189	-2566	- 316	- 479	- 7,550
BUDGET BASELINE:	-4191	-2045	- 638	- 828	- 7,702

Footnotes:

(1) Holds increase in flat premium in FY92 and FY93 at $5.46 (scheduled increase for FY91). Cut of $2.1 billion FY90-93.

(2) No delay in implementation of drug benefit or DUR. Targets 13.4% of population by setting deductible at @ $???.

(3) Restores financial protection in SNF benefit while allowing program to grow twice the amount originally intended. Re-institutes 3-day prior requirement; allows up to 150 covered days per spell of illness per 12 month period; requires co-pay of 20% for days 1-30. Includes grandfather effective on enactment.

(4) a) Drops requirement that beneficiary meet either Part B cap or drug deductible to be eligible for respite. Sets separate threshold of $1370 in Part B out-of-pocket expenses that targets the same percentage of persons eligible under current law (32%). Changes where such respite may be received from solely in-home to include, up to equivalent dollar value, care in adult day care facility, comprehensive outpatient rehabilitation facility, hospital, or nursing home.

b) Expands respite benefit to include Alzheimer's patients and their families. Permits Medicare beneficiaries with Alzheimer's to receive respite care without meeting an out-of-pocket threshold. All other eligibility requirements in current law continue to apply. Clarifies current eligibility rules regarding ADL limitation to permit coverage to persons with 2 ADLs or more or for persons (Alzheimer's victims) who require continual supervision.

(5) Reduces supplemental premium rate from 15% to 10% and lowers maximum dollar cap to $585. Pending data from joint tax, may be adjusted to permit threshold to be raised.